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# **2005 Peer Review Report**

## **Presented to the Joint Committee on Boards, Commissions and the Consumer Protection of the California Legislature**

*Submitted August 24, 2005*

Because the report's attachments are voluminous and may cause downloading problems, they are not included with this report. If you are interested in receiving a hard copy of the attachments, you may email the Board at [vosborn@cba.ca.gov](mailto:vosborn@cba.ca.gov).

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August 24, 2005

The Honorable Liz Figueroa, Chair  
Joint Committee on Boards, Commissions and Consumer Protection  
1020 N Street, Room 521  
Sacramento, CA 95814

Dear Senator Figueroa:

On behalf of the California Board of Accountancy, I am pleased to provide you with the Board's *Report on Peer Review, September 2005*, prepared in compliance with Business and Professions Code Section 5076.

This report addresses issues related to the implementation of mandatory peer review in California in light of changes in federal law, state law, and professional standards. It concludes with recommendations for further consideration of mandatory peer review.

Should you have questions or need additional information, please contact the Board's Executive Officer, Carol Sigmann, at (916) 561-1718.

Sincerely,

Renata M. Sos  
Board President

Enclosure

- c: Bill Gage, Chief Consultant, Senate BP&ED Committee  
Charlene Zettel, Director DCA  
Kristen Triepke, DCA Legislative and Regulatory Review  
Bruce Allen, California Society of CPAs  
Art Kroeger, Society of California Accountants  
Susan Coffey, AICPA  
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Members, California Board of Accountancy  
Members, CBA Peer Review Task Force

# **PEER REVIEW REPORT**

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**California Board of Accountancy  
2005 Peer Review Report**

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**REPORT ON PEER REVIEW**  
**September 2005**  
**Prepared in Compliance with**  
**Business and Professions Code Section 5076**

**INTRODUCTION:**

Subdivision (d) of Business and Professions Code Section 5076 (**Attachment 1**) mandates that the California Board of Accountancy (Board) review the implementation of mandatory peer review in California in light of the changes to federal and state law and regulations and to professional standards, and report its findings to the Legislature and the Department of Consumer Affairs by September 1, 2005.

When originally enacted, Subdivision (d) required that this report be submitted to the Legislature in September 2003. In September 2003, as part of its sunset review submission, the Board provided an interim report which summarized the history of California's peer review statute and assessed the strengths and weaknesses of peer review (**Attachment 2**). The interim report concluded that insufficient information was available at that time to make a meaningful evaluation, particularly given contemporaneous developments in state and federal legislation and regulations. Therefore the Board requested that the due date for the final report be extended to September 1, 2005, and that mandatory peer review implementation be delayed until July 1, 2008. In 2004, SB 1543 by Senator Figueroa (Chapter 921) amended Section 5076 to incorporate the Board's recommendation.

This report supplements the 2003 interim report by providing updated information and analysis pertinent to the question of whether peer review should be mandated in California and, if so, how. This report has five parts. First, we discuss the history of the peer review statute and the Board's study process; second, we review relevant changes in federal law; third, we focus on the impact of changes in state law; fourth, we discuss changes in professional standards; and, finally, we conclude with recommendations.

**HISTORY OF THE PEER REVIEW STATUTE AND THE BOARD'S ANALYTICAL PROCESS:**

As part of its 2000 Sunset Review Report, the Board proposed the enactment of a peer review requirement. In that report, the Board set out two principal reasons for mandatory peer review. One reason was that the Board was simultaneously proposing elimination of the attest experience requirement for licensure. Data in that report indicated that many applicants considered the attest experience requirement to be a significant barrier to licensure. Also, given that only 13 percent of Certified Public Accountants (CPAs) in California considered audits to be their primary area of practice,

the attest experience requirement appeared outdated. On that basis, the Board concluded that the public interest warranted establishing post-licensure peer review requirements for individuals and firms that provide attest services. The proposal was also consistent with the Board's objective of achieving consistency with the Uniform Accountancy Act (UAA) to enable qualified California CPAs to more easily practice public accountancy in other states.

In addition, the Board believed that its peer review proposal generally enhanced consumer protection. Specifically, the Board's Report Quality Monitoring Program at that time encompassed only 600 licensee reports per year and did not involve consideration of the working papers and underlying documentation. By contrast, under a mandatory peer review requirement, each firm providing attest services in California ideally would periodically receive a comprehensive assessment of its reports, working papers, auditing procedures, and quality controls.

The Legislature in 2001 enacted AB 585 and SB 133 (Chapters 704 and 718 respectively), to add Business and Professions Code Section 5076 to the Accountancy Act. That section mandated that after January 1, 2006, firms providing attest services – other than sole proprietors or small firms (four or fewer licensees) – must complete peer review as a condition of registration renewal. This statute left much of the substance of the program to be developed later through the rulemaking process. (See **Attachment 3** or the originally enacted text of Section 5076.) This same legislation also modified the Board's licensure requirement, but did not totally eliminate the attest experience requirement as the Board had recommended. Instead, attest experience was recast as a requirement, not for licensure, but as a precondition for the specific authority to sign attest reports.

Shortly after enactment of AB 585 and SB 133, the unprecedented audit failures at publicly-held companies focused national attention on weaknesses in the regulation of the public accounting profession and called into question the effectiveness of peer review and the self-regulation of the profession in preventing significant audit failures. These events led to the federal Sarbanes-Oxley Act of 2002 and the creation of the Public Company Accounting Oversight Board (PCAOB) to oversee and inspect auditors of public companies.

Throughout this crisis, the California Legislature and the Board assumed a proactive role. After organizing a special task force and holding extensive public hearings early in 2002, the Board issued recommendations that contributed to the development of major reform legislation in California. Included in this reform legislation were amendments to Business and Professions Code Section 5076 to add Subdivision (d) mandating that the Board re-evaluate mandatory peer review in light of the changes in the oversight and regulation of the public accounting profession.

In late 2002, the Board established the Peer Review Task Force to undertake the re-evaluation of peer review. Since its inception, the Task Force has consisted of licensees, public Board members, and also individuals who were not members of the

Board but who had expertise in the areas of regulation and consumer protection. Currently, the Task Force consists of eight members. (**Attachment 4** provides a roster of the Task Force's current membership.) From the beginning, Task Force discussions and deliberations have occurred in a public forum, with extensive input from members of the public, professional groups, and consumer protection advocates.

During early 2003, the Task Force met to review and analyze the following information:

- History of peer review and the UAA.
- History of peer review in California, including the findings of the Board's earlier Peer Review/Attest Firm Task Force and the Board's 2000 Sunset Review Report.
- Statutory changes at the federal and state levels.
- Status of implementation of the PCAOB's inspection program.
- Status of proposed changes to the AICPA's peer review program for public accounting firms that provide attest services to nonpublic companies.
- Other states' peer review programs.

Based on this review and analysis, the Task Force and the Board concluded that the additional relevant information necessary for a full and thoughtful response to the Legislature's mandate regarding peer review was not yet available. For example, the PCAOB's inspection program was still under development and was not expected to be operational until sometime in 2004. Also, although the AICPA had proposed revisions to its peer review standards (which would be applied in a mandatory peer review process), final standards had not been issued. Further, reform legislation enacted in 2002 – AB 270 (Chapter 231), AB 2873 (Chapter 230) and AB 2970 (Chapter 232) – that significantly expanded the Board's self-reporting and audit documentation requirements (and made other law changes related to the Board's Enforcement Program) had not been in place long enough to manifest a consumer protection impact. It was for these reasons that, in the Interim Report dated September 1, 2003, (see **Attachment 2**), the Board requested an extension of the deadline for submission of the final report on peer review.

Once more information became available, the Board's Peer Review Task Force resumed its work in the fall of 2004. The Task Force held full-day public meetings in October 2004 and in February 2005, and a half-day meeting in July 2005. Representatives of the profession, including individuals from the California Society of Certified Public Accountants (CalCPA), and representatives from consumer groups attended these meetings and actively participated in the discourse about the relevant issues. At the October 2004 meeting, the Task Force heard detailed reports from senior AICPA representatives about the AICPA Peer Review Program and the Center for Public Company Audit Firms (CPCAF) Peer Review Program. (**Attachment 5** provides the minutes of that meeting. **Attachments 6, 7, and 8** provide background material reviewed by the Task Force.) The February 2005 Peer Review Task Force meeting focused on policy considerations. Task Force members reviewed the costs and benefits of four different options developed by staff for mandatory peer review in California. The options ranged from full implementation of the AICPA's peer review

program with Board monitoring and oversight to a pared down program that focused on providing information to consumers. After reviewing the analysis, the Task Force and meeting attendees discussed the costs, benefits, and limitations of existing peer review programs and posited alternatives. (See **Attachment 9** for the minutes of the meeting.)

The final public meeting in July 2005 focused on a review of this report in draft form. Revisions were recommended for purposes of clarifying the positions of the Task Force and the Board. (See **Attachment 10** for the minutes of that meeting.)

## **CHANGES IN FEDERAL LAW:**

The audit failures related to the collapse of publicly-traded companies and the ensuing public outcry led to the enactment of the Sarbanes-Oxley Act of 2002 which created, among other things, the PCAOB and revamped the oversight of the public accounting profession. The PCAOB, a private-sector, non-profit corporation under the oversight of the Securities and Exchange Commission (SEC), was given responsibility for overseeing the auditors of public companies in order to protect investors and further the public interest in the preparation of fair and independent audit reports.

The PCAOB's responsibilities include registering public accounting firms that audit public companies, establishing auditing standards, and conducting inspections to assess compliance with applicable standards. Information on the PCAOB's Web site describes the inspection program as follows:

Section 104 of the Sarbanes-Oxley Act of 2002 requires the Board [PCAOB] to conduct a continuing program of inspections of registered public accounting firms. In those inspections, the Board assesses compliance with the Act, the rules of the Board, the rules of the Securities and Exchange Commission, and professional standards, in connection with the firm's performance of audits, issuance of audit reports, and related matters involving issuers. The Act requires the Board to conduct those inspections annually for firms that provide audit reports for more than 100 issuers and at least triennially for firms that provide audit reports for fewer issuers.

The Act requires the Board to prepare a written report concerning each inspection. Under the Act and the Board's rules, the Board provides a copy of each report, in appropriate detail, to the Commission and to certain state regulatory authorities. The Board also makes portions of those reports available to the public, subject to restrictions in the Act that prohibit, or require a delay in, the public disclosure of certain information.

PCAOB inspection reports include a public portion that contains comments on deficiencies and a confidential portion that comments on the firm's internal system of quality control. Limited inspections were conducted in 2003, and full-scale inspections began in 2004. The Board understands that, in the course of an inspection, the PCAOB



will review approximately five percent of a large firm's audit engagements. The percentage of engagements reviewed will be higher for smaller firms with fewer audit clients.

With an annual budget of over \$136 million, the PCAOB represents an unprecedented effort by the federal government to enhance oversight of the public accounting profession in the area that most broadly affects the American public – the audits of public companies. It is a significant improvement over traditional peer review in that it replaces firm-on-firm reviews with inspections by an independent entity that has substantial enforcement authority over firms. The Sarbanes-Oxley Act specifically provides that in the event an inspection identifies potential violations, the PCAOB may initiate a formal investigation or disciplinary proceeding or make a referral to the Securities and Exchange Commission or state regulatory authority.

**After considering the PCAOB's inspection process and reviewing a variety of documents including copies of the public portion of inspection reports, the Peer Review Task Force concluded that while it is too soon to assess the inspection program's effectiveness, it appears to provide meaningful and valuable independent oversight of audits of public companies. Consequently, we believe it is appropriate to exclude from any Board-mandated peer review program audits otherwise encompassed by the PCAOB program.**

The Peer Review Task Force noted that, even with the exclusion of public company audits, there are still many attest engagements which could be subject to a mandatory peer review or practice monitoring requirement. This includes audits of nonprofit entities, government agencies, and private businesses – all of which affect the public interest and the economy of this state.

## **CHANGES IN STATE LAW:**

In 2002, California enacted major reform legislation that provided important additional consumer protection measures.

- AB 2873 by Assembly Members Frommer and Correa (Chapter 230, Statutes of 2002) enhanced standards for audit documentation for all audits performed by California licensees. A key provision mandated that audit documentation be sufficiently complete that a knowledgeable reviewer who has no connection with the audit can understand, among other things, the audit procedures that were performed and the conclusions reached. The "rebuttable presumption" is another critical provision enacted by AB 2873. It provides that if a required procedure is not documented, it is presumed that the work was not done. The burden of rebutting the presumption by proving the work was done then shifts to the accountant. In addition, AB 2873 also established a seven-year audit documentation retention standard.

- AB 270 by Assembly Member Correa (Chapter 231, Statutes of 2002) enhanced the Board's ability to protect consumers by strengthening the Board's Enforcement Program. The bill also expanded the Board's enforcement "radar screen" by significantly expanding the Board's self-reporting requirements and converted the Board's composition to a public member majority. As noted earlier, AB 270 also mandated that the Board re-evaluate whether mandatory peer review should be implemented in California.
- AB 2970 by Assembly Member Wayne (Chapter 232, Statutes of 2002) placed certain restrictions on employment of the auditor by audit clients.

The Peer Review Task Force concluded that, despite the significant measures directed at preventing audit failures in California, this legislation did not, in itself, obviate the need to continue considering mandatory peer review. Nonetheless, law changes in this legislation remain of critical importance to the Board's consumer protection efforts. The Board's 2003 Sunset Review Report commented on the long-term potential of the reforms:

These reform statutes and the regulations developed to implement them are significantly transforming the regulation of this profession in California. This transformation will continue to evolve through the next several years, and the funding and staffing levels of this Board will be key to the success of the reforms just enacted.

Adequately staffing its Enforcement Division remains one of the Board's pressing priorities. To this day, the Board's Enforcement Program employs only four investigators to oversee over 72,000 CPAs and accounting firms. The salaries it pays its investigators are inadequate for recruitment and retention purposes. This Board documented the difficulties it faces in policing the large accounting firms in its Sunset Review Report dated September 1, 2003 (**Attachment 2**).

During its discussion, the Peer Review Task Force noted that, while 37 other states require peer review for accountants who perform attest services, those requirements were enacted prior to the Enron/WorldCom scandals and the ensuing questioning of traditional peer review. Further, the fact that, in contrast to California, 37 other states have active peer review programs does not mean that the Board has less interest in protecting the public than boards of accountancy in other states. On the contrary, the Board has consistently demonstrated its commitment to its consumer protection mandate and has emerged as a national leader in developing innovative ways to efficiently and effectively address consumer protection issues. This is illustrated by the 2002 reform legislation, discussed earlier in this report, which enacted audit documentation requirements, new self-reporting requirements, and other reforms for enhanced consumer protection. Further, in 2004 the Board once again proposed significant consumer protection legislation. The "practice privilege" provisions enacted by SB 1543 (Figueroa, Chapter 921) strengthen consumer protection by bringing under the Board's regulatory and enforcement umbrella potentially hundreds of out-of-state

CPAs who practiced “temporarily” in California, but previously were not required to notify the Board they were here. California’s “practice privilege” concept is now serving as a model for the nation. SB 1543 also addressed recent concerns regarding outsourcing and privacy protection by adding provisions to prohibit the disclosure of confidential financial information to third parties without the client’s written consent.

## **CHANGES IN PROFESSIONAL STANDARDS – THE AICPA PEER REVIEW PROGRAMS:**

Peer review is required for firms engaged in the practice of public accounting to be admitted to and maintain voluntary membership in the American Institute of Certified Public Accountants (AICPA). Such peer review is intended to be an educational process to improve the quality of a firm’s accounting and auditing practice. The AICPA has two programs: the AICPA Peer Review Program and the Center for Public Company Audit Firms (CPCAF) Peer Review Program. The AICPA Peer Review Program is for firms that do not audit public companies. The CPCAF Peer Review Program is primarily for firms that audit public companies, though the program targets the portion of the firm’s practice that involves audits of non-public companies.

The AICPA Peer Review Program provides for firm-on-firm peer review. The standards and methodology are developed by the AICPA and administered by 41 affiliated state CPA societies throughout the nation. In California, CalCPA is the administering entity. Approximately 32,000 firms participate in the program nationwide, and approximately 4,300 California firms participate in the peer review program because of their membership in the AICPA or because they chose to participate voluntarily.

The AICPA Peer Review Program conducts three types of peer reviews:

- System reviews are for firms that perform audits and examinations of prospective financial information. The objective is to provide reasonable assurance that, during the year under review, the firm’s system of quality control is designed in accordance with professional standards and complied with by the firm. These reviews include on-site visits to the firm being reviewed.
- Engagement reviews are for firms that perform review services, compilations with disclosures, and attestation engagements as their highest level of service. The objective is to provide reasonable assurance that the financial statements and documentation related to the reviewed engagement conform with professional standards.
- Report reviews are for firms that perform compilation engagements that omit substantially all disclosures. The objective is to enhance the quality of the compilation practice of the reviewed firm.

In response to the establishment of the PCAOB firm inspection program, in January 2004 the CPCAF Peer Review Program replaced the AICPA’s SEC Practice Section Peer Review Program, which previously conducted peer reviews of auditors of public companies. Like the AICPA Peer Review Program, the CPCAF Peer Review Program

involves firm-on-firm peer review. However, rather than being administered through state CPA societies, the CPCAIF program is administered at the national level by the AICPA. Approximately 950 firms participate in the CPCAIF Peer Review Program. The CPCAIF Peer Review Program makes peer review reports available to the public via a public file on the AICPA's Web site.

The AICPA peer review process recently has undergone, and continues to undergo, significant revisions. In addition to the creation of the CPCAIF Peer Review Program, during the period 1998 through 2003, the AICPA re-evaluated its programs and revised its standards. The Board provided input during this re-evaluation process. By letter of September 24, 2002, the Board provided comments on the AICPA peer review process. The Board again provided extensive comments by letter of August 4, 2003, in response to the AICPA's May 30, 2003, Exposure Draft – Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews. (See **Attachments 11 and 12** for copies of these letters.)

The revised standards were approved by the AICPA Peer Review Board in October 2003 and are in effect for peer reviews commencing on or after January 1, 2005. Some of the changes include: the requirement that the reviewed firm provide a representation that the firm has adhered to state board of accountancy requirements; enhancements to the requirement that the peer reviewer assess the competency of the engagement team; new requirements for peer reviews intended to make the information clearer to the reader; and changes in standards that permit the three-year peer review cycle to be shortened if the firm's circumstances warrant it.

Although the Board supports these changes, we do not believe that they sufficiently address the Board's concerns. First of all, it is unclear whether the new standards significantly expanded the scope of engagements subject to peer review. Further, the new standards do not provide for the transparency of peer review documents in the AICPA Peer Review Program. From the Board's perspective, transparency is of critical importance. In its letter of September 24, 2002 to the AICPA, the Board stated:

“One of the more significant issues that is brought up is that the current peer review program lacks transparency. The results and details of peer reviews are not currently publicly reported, and, as a result, those that rely on independent audits do not have access to the results of the peer reviews of the professionals that perform such audits.”

At its February 2005 meeting, the Task Force expressed concern that two and one-half years later the AICPA has not provided for public reporting of peer review reports and findings; nor has the AICPA responded meaningfully to most of the other concerns expressed by this Board in its comment letters. While there may be a movement toward increased transparency in the AICPA Peer Review Program, a vote of the AICPA membership is required, and we have no information regarding whether or when it will take place.

There may also be other changes to the AICPA program in the near future, but the nature and impact of these changes is uncertain and outside the control of this Board. Because of these uncertainties and the relatively recent modifications to the AICPA's program, the Task Force was unable to determine whether the AICPA Peer Review Program sufficiently protects the interests of California's consumers.

In addition to the unanswered questions regarding the future of peer review standards, the Task Force identified two other significant areas of uncertainty. If the Board were to implement mandatory peer review based on the AICPA program, there would be staffing needs and other associated costs ranging from approximately \$129,000 to more than \$600,000 annually depending upon the degree of program oversight by the Board. In this time of fiscal crisis, it is unknown if the Board would be given the expenditure authority and resources to implement such a program.

A second area of uncertainty is whether the Board would be able to incorporate into such a program any additional standards and requirements that it concludes are important for consumer protection in California, but which are outside the scope of the AICPA's Peer Review Program. It is unlikely the AICPA would accept any California-specific elements into its peer review program. If the Board were to independently require elements that are not part of the AICPA peer review, these elements would need to be addressed in a separate engagement. This could become unduly burdensome insofar as many firms would be subjected to two peer reviews – one to comply with the AICPA's requirements and one to comply with the additions in the Board's program.

**After studying and deliberating on these constraints and uncertainties, the Task Force concluded that it would not be prudent to recommend that the Board embrace the AICPA program at this time.** The Task Force noted that even though the AICPA program has value as a private-sector, voluntary, educational program – in which a large number of California CPAs already participate – this does not necessarily make it an appropriate vehicle for Board regulation. The Task Force was further concerned that if the AICPA program is endorsed by the Board, it may inaccurately be perceived by consumers as a regulatory program fully under the Board's control.

The Task Force also noted that there presently is no readily available alternative to the AICPA peer review program. The cost of a Board-implemented practice monitoring program for engagements other than public company audits would be prohibitive, especially given current fiscal uncertainties. A second reason there are no realistic alternatives to AICPA peer review at this time is that there are no other peer review providers capable of providing services to the majority of California firms. Research into the operation of peer review in other states has indicated that there are only two or three other peer review providers, and these are too small in size and range of services to be viable alternatives to the AICPA programs for most California public accounting firms. Further, establishing a Board process to develop peer review standards and adequately oversee multiple providers would increase the cost of implementing mandatory peer review.

## **RECOMMENDATIONS:**

Based on the analysis and conclusions above, the Board respectfully makes the following recommendations:

### **1. Do not embrace the AICPA program at this time.**

Because of the constraints and uncertainties discussed earlier in this report and in the 2003 Interim Report, it would not be prudent to embrace the AICPA Peer Review Program at this time. The Board has significant concerns about the AICPA program, particularly in two areas: transparency and scope.

### **2. Continue to evaluate options for the implementation of mandatory peer review in California and make a recommendation to the Legislature no later than the submission of the Board's September 2009 Sunset Review Report. Revise Business and Professions Code 5076 to indicate that the time frames for peer review implementation will be determined by the Legislature as part of the sunset review process.**

At that time many of the above-noted uncertainties and constraints may have been resolved. Further, consideration of peer review as part of the sunset review process will permit the merits and drawbacks of peer review to be evaluated in the context of other Board programs – especially its underfunded and understaffed Enforcement Program – and the Legislature can give the Board guidance regarding resource allocation and priorities. **Attachment 13** provides statutory language to implement this recommendation. Any further discussions by the Board will be framed and defined by this report and the 2003 Interim Report.

### **3. The California Board of Accountancy must oversee mandatory peer review.**

The details of the Board's oversight will be developed as part of any future consideration of mandatory peer review.

### **4. In any future study of mandatory peer review, consideration should be given to the transparency of peer review.**

We believe that transparency both to the consumer and to state boards of accountancy is of critical importance. The nature, timing and availability of peer review documents to the public would be determined at a future time.

### **5. Exclude from any Board-mandated peer review program audits otherwise encompassed by the PCAOB inspection program.**

As discussed earlier in this report, the PCAOB inspection program replaces firm-on-firm reviews with inspections by an independent entity that has substantial enforcement authority over firms. While it is too soon to fully assess the program's effectiveness, it appears to provide meaningful and valuable independent oversight of audits of public companies.

**6. Any future study of mandatory peer review should include a re-evaluation of the provision in current law which excludes sole proprietors and small firms from the peer review requirement.**

There is, in our view, no consumer protection benefit in excluding sole proprietors and small firms which provide attest services from mandatory peer review. Conversely, we believe that if sole proprietors and small firms were subject to the same peer review requirements imposed on larger firms, significant consumer benefit would result.

**7. In any future study of mandatory peer review, consideration should be given to consumer education to communicate a more realistic understanding of the benefits and limitations of peer review for public accounting firms.**

Based on our analysis, we believe that many consumers are confused about the purpose and limitations of peer review. Two inaccurate, but commonly-held, beliefs were identified:

- “Peer review prevents audit failures.” This commonly-held belief was one of the reasons peer review was vilified following the Enron crisis. A consumer education process would be useful to explain that because peer review looks at only a percentage of engagements and is not intended to detect fraud, it cannot be relied upon to prevent audit failures.
- “Peer review for accounting firms is similar to peer review for many healing arts professionals – an investigative tool that can lead to punitive or enforcement action by an insurer or regulator.” It is important to communicate that peer review for the public accounting profession is not punitive and instead is primarily an educational process to aid firms in improving the quality of their accounting and auditing practices.

If peer review is made mandatory, an educational component would be valuable to assist consumers in realistically assessing any peer review information they receive and to avoid the unintended creation of an expectation gap.